

Comments on “North American Integration and Canadian Foreign Direct Investment”

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WEAI-IBEFA Meetings
Honolulu: June 30, 2008



--- Free Trade Agreement (1988)

— NAFTA (1994)



Research Question:

*What is impact of
these two agreements
on FDI in and out of
Canada?*

--- Free Trade Agreement (1988)

— NAFTA (1994)

Proviso: *I am not Jim Brox*



"What--me worry?"

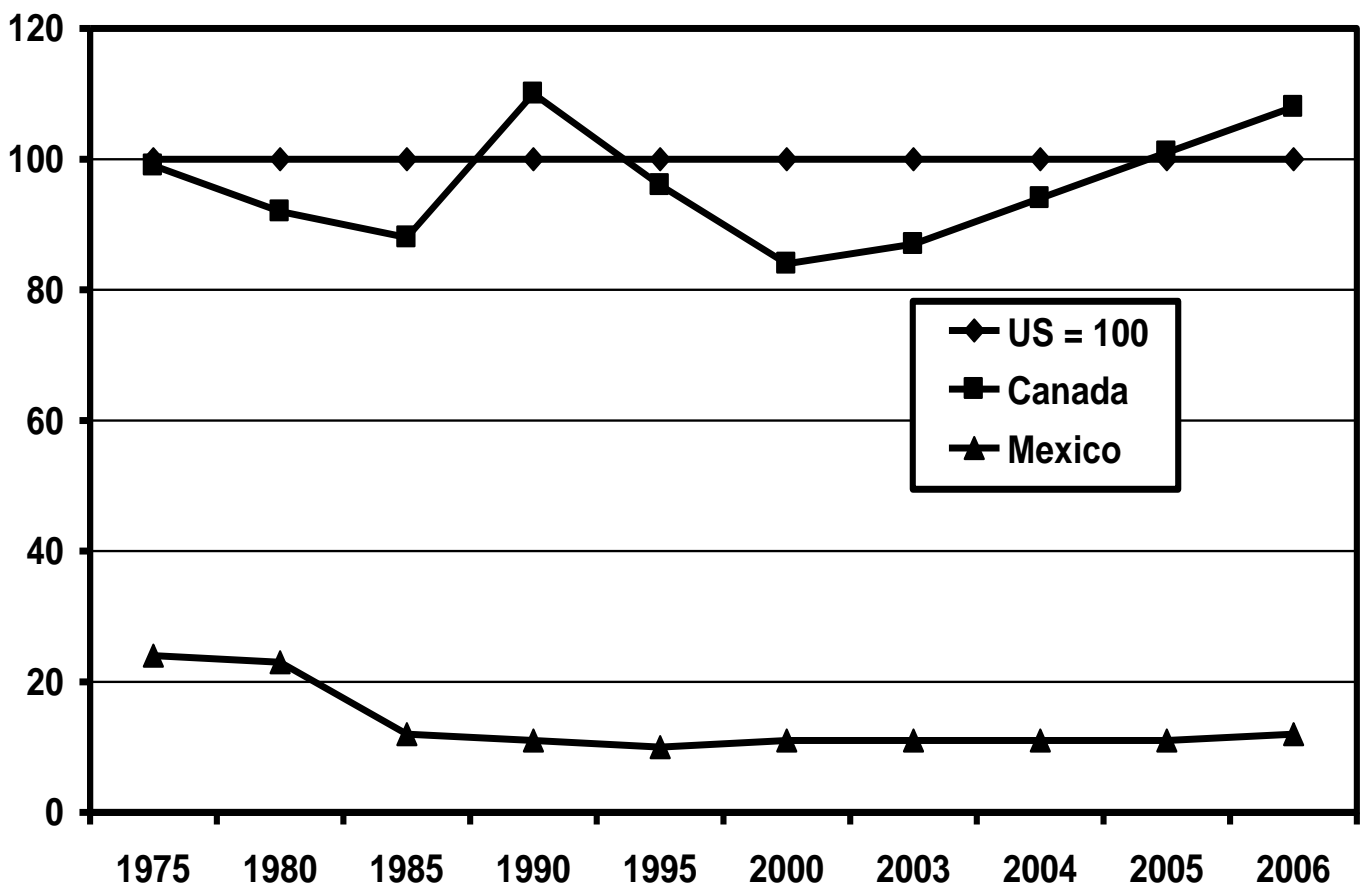
How I think of FDI



- Export platform back to the investing country
 - *Low costs in the host*
 - *Market conditions in the investing country*
- Production of goods and services for host country
 - *Market conditions in the host*

Mexican (Labor) Cost differentials don't vary all that much despite exchange rates, etc.

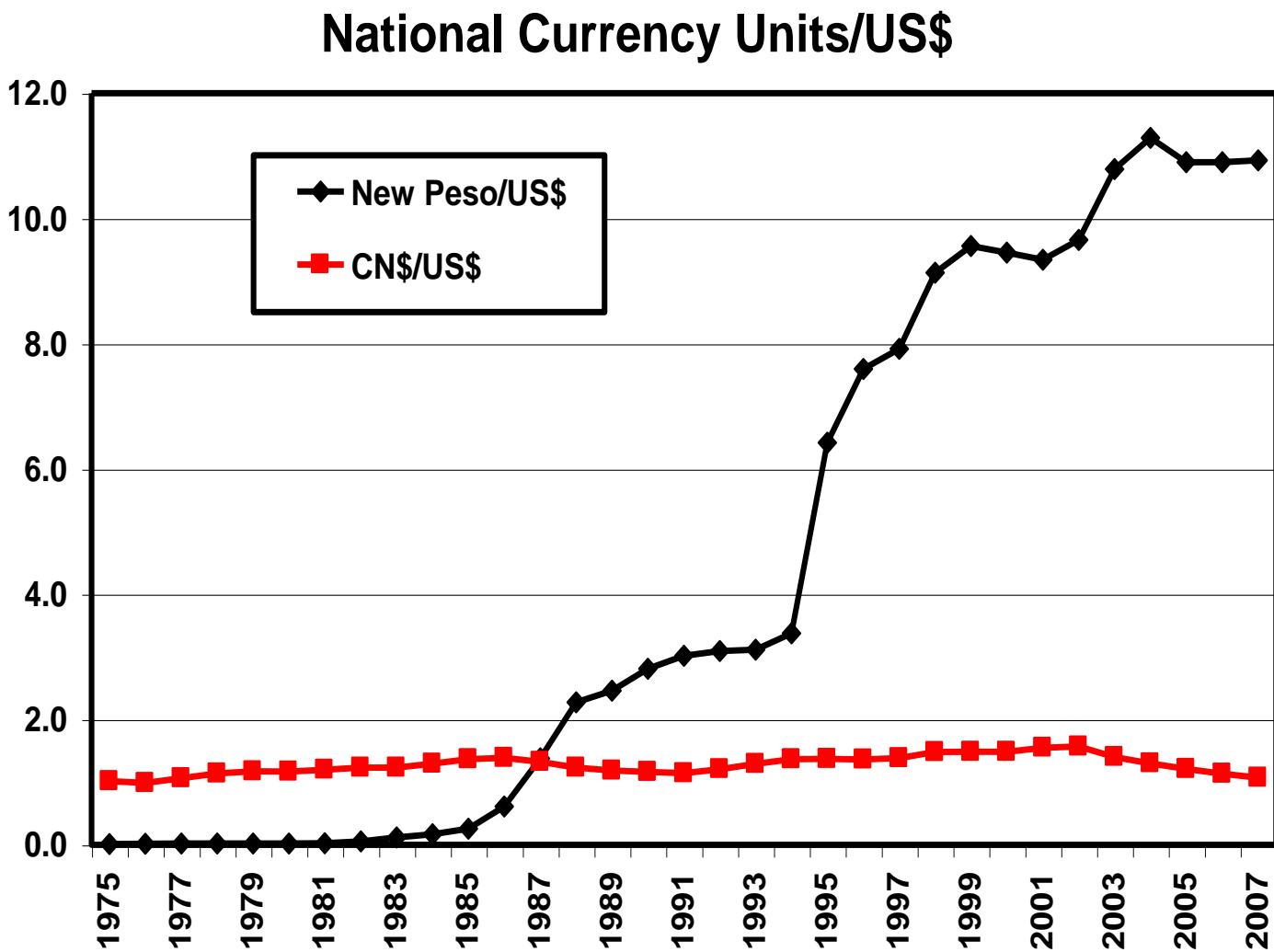
Mfg. Hourly Wage: US = 100
(US\$ at Prevailing Exchange Rates)



**Mexico should be capturing
FDI based on its role as
export platform**

Source: BLS

Mexican Exchange Rate Reflects Risk, Inflation, Spillover from Other World Crises



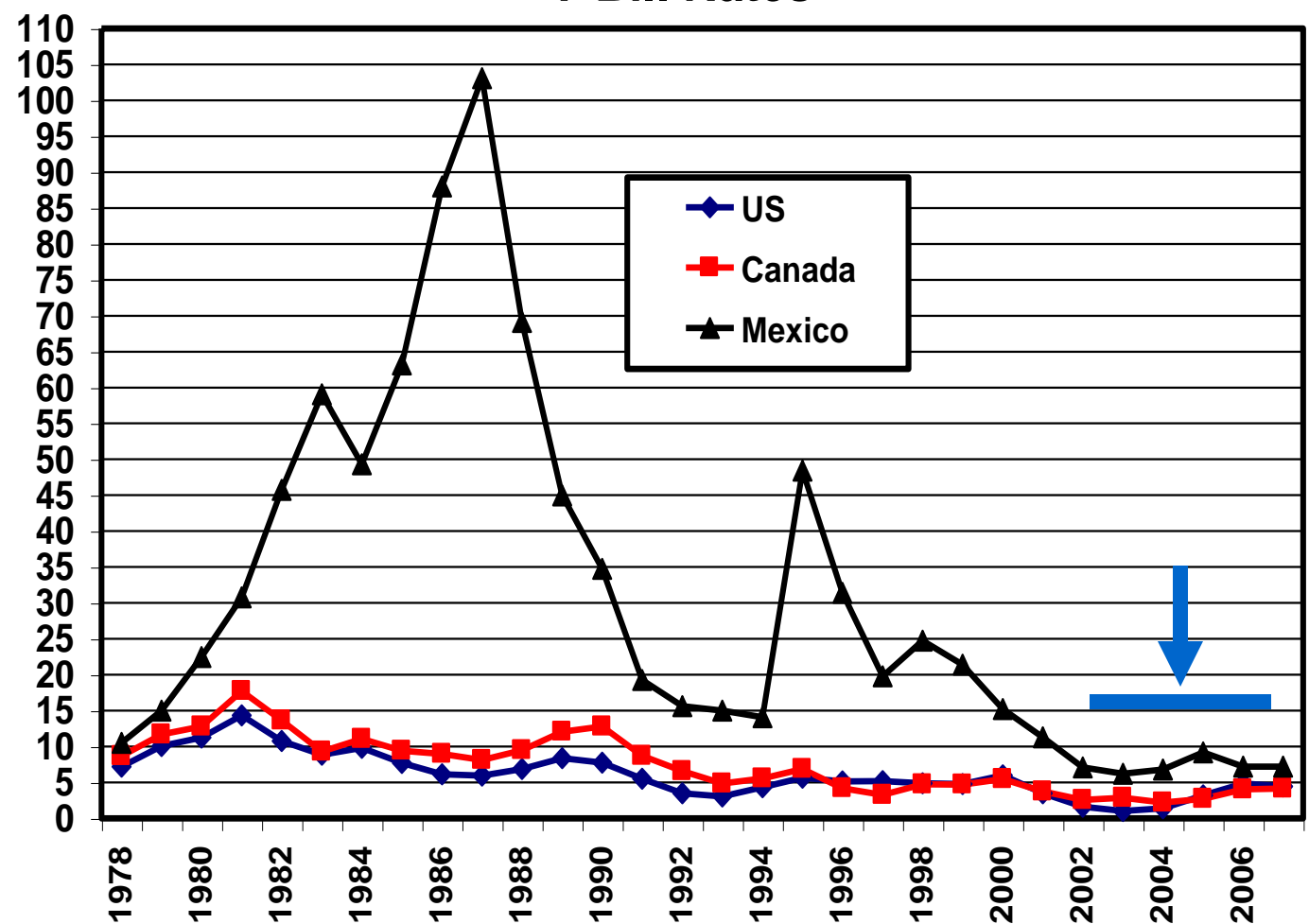
Source: IMF

Mexican Exchange Rate Reflects Risk, Inflation, Spillover from Other World Crises



Mexican financial markets show lots of evidence of risk and inflation until recently

T-Bill Rates



Source: IMF

FDI based on servicing Mexican market faced uncertain outlook until recently

What the paper does:

- *Proposes a theoretical three country model of FDI behavior*
- *Model suggests that the 1988 US-Canada agreement should increase FDI*
- *Model ambiguous on impact of 1994 US-Canada-Mexico agreement*
- *Data from official US, Canada, Mexico, OECD sources*
- *Predict multi-country pairs of inflows and outflows of FDI and look at whether the 1988 and 1994 agreements had an impact on the Canada-related flows*

Basic Results

1988

- *US → Canada may be positive*
- *Outside → Canada negative*
- *Canada → US not significant*
- *Canada → Mexico negative*

1994

- *US → Canada positive*
- *Outside → Canada negative*
- *Canada → US positive*
- *Canada → Mexico negative*

Problem #1

1988

1994

- *US → Canada
may be
positive*

- *US →
Canada
positive*

- *Outside →*

- *Outside →*

**Result in box
should not be
a maybe**

Problem #2

1988

1994

- *US → Canada
may be
positive*

- *US →
Canada
positive*

- *Outside →*

- *Outside →*

*I can think of
rationales for
all the others
to be + or -*

Problem #3

1988

1994

- *US → Canada may be positive*

- *US → Canada positive*

- *Outside →*

- *Outside →*

■ **Export platform**
■ **vs.**
■ **serve local mkt**

Conclusion

1988

- *US → Canada may be positive*
- *Outside → Canada negative*
- *Canada → US not significant*
- *Canada → Mexico negative*

1994

- *US → Canada positive*
- *Outside → Canada negative*
- *Canada → US positive*
- *Canada → Mexico negative*

**We are looking at residuals;
not empirically based
estimates of some model.**

Conclusion

1988

1994



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